

Gremlin Industries: A national leader in developing and making games people play

By Dan Trigoboff

Some employers might frown on the practice, but Frank Fogelman pays his people to play games.

One man's game, of course, is another man's business, and Fogelman is that man. As founder and president of Gremlin Industries, touted as the third largest video game manufacturer in the world, he pays his people not only to play games, but to make them and market them as well.

In its eight years of existence, Gremlin has produced about fifteen different video games, usually one or two at a time. It takes six months to a year to bring an idea for a game to the point where it's ready to be put on the market. While the company's one or two completed packages are going through the production and marketing, anywhere from two to five more concepts are being researched and tested. Research and design runs between \$150,000 and \$250,000 per game.

Video games like nothing more than a harmless diversion of little significance, but behind the small and amusing piece of machinery one might fiddle with at a bar or penny arcade is a billion-dollar business. For the industry's leader, Atari, that means somewhere between \$100 and \$200 million in sales each year.

At Gremlin, the total is somewhat lower, but still high enough to produce what Fogelman calls "a highly profitable business." Gremlin is a wholly-owned subsidiary of Sega, so total sales and profits are not public record. A reliable source, however, offered that sales for the past year have exceeded \$30 million.

The industry appears strong now, and along with it, Gremlin's position within, but, as one Gremlin staffer recalled, "things have not always been sound in video games."

In the mid-1970s, there were about 40 companies in the brand new video-games industry. A downturn in the industry proved so severe that today's half-dozen survivors had trouble staying alive.

For Gremlin, the strength to hold together came from Sega, a subsidiary of Gulf and Western, which bought its

way into control, bringing with it the capital needed to keep the company going. Sega was already involved with its own video game company, also called Sega, in Tokyo.

"The business is booming again," Fogelman said, "and although I see a lot of expansion and new companies coming along — like with any growing area of business — I don't see us reaching the point where (the industry will include) close to 40 companies again."

Gremlin reflects the growth of the industry, taking up four buildings in the Kearny Mesa industrial area, and employs over 400 people.

The company actually started 10 years ago, but didn't enter the games market until 1972. A small group of engineers, led by Fogelman and Carl Grendel, formed the corporation in the hopes of success while producing food-timing equipment for Jack-In-The-Box, and oceanographic equipment for the Scripps Institute. The products were similar to those manufactured by a company Fogelman had founded 10 years earlier, Aero Marine.

Fogelman had seen the development of sophisticated machinery since his early years out of the University of Tennessee, when he came to San Diego to work for General Dynamics, Convair. He and the others in his group felt there was a way to commercialize on their expertise.

"We came up with the idea of video games after observing the state of the art in the eastern block cities," Fogelman recalled. "We thought it would be a good direction to go in."

The company spent eight months in 1972 researching and developing a game it felt would be successful, and by 1973, it was ready with its first, "Play Ball," a first generation video game with a baseball theme.

The game was well received, and Gremlin throttled to full speed into what is known as "the amusement industry."

The company name, Gremlin, appears initially to be perfectly suited for its current product line, but the name actually came about through a mistake.

"We can attribute our name to a bureaucrat in Delaware who was hard of hearing," Fogelman said. He and



Fogelman at the controls

Carl Grendel planned to combine their names and call their company "Grendelman." But the mistake was made during incorporation in Delaware, when the company name became "Gremlin."

It turned out to be a fortunate error, especially since Grendel is no longer part of what could have been "Grendelman Industries," having sold out to Gene Candalone and Gerald Hansen, two more engineers who were around at the beginning.

It takes about a year to bring an engineer's brainstorm to the finished product stages. (The engineer) first has to write a description of the way the game will be played," Fogelman said, "and then we have to develop the game itself.

"Remember, we're talking about a sophisticated piece of equipment here. Each of these machines is a full-fledged computer."

Gremlin has even converted one of its games, called "Frogs", to control energy management and security. All the doors and windows at Gremlin are monitored by the former "Frogs", as are lighting and air conditioning.

From the research and development stage, the game goes to test marketing.

Part of that testing goes on within the company, with games placed throughout the plant for employees to use during coffee breaks.

"Basically, we put the games out for our people to enjoy," Fogelman said. "But if we put out something new, we can watch and see if the concept is coming across, if the game is easily understood and the operation goes smoothly."

After testing, the company gears itself for production. "If we have more than two games that appear to be good bets," Fogelman explained, "we'll release two and stagger the release of the others. We have marketed more at one time, but we've found it best to concentrate on one or two. And it's a lot easier to produce one at a time than 10."

Fogelman says this is the general practice in the industry. Even the giant Atari markets only a couple games at one time. However, with each game having an average life of about four years, it's likely that any particular arcade might have several games from the same company.

"If you go over to Spanky's on Midway Drive," Fogelman said, "you'll see

PUBLIC OFFERING

Young medical electronics company tries public market

By Rick Rowden

GST Laboratories Inc., La Jolla makers of electronic screening devices to detect breast cancer, has received preliminary verbal clearance from the Securities Exchange Commission (SEC) for its prospectus in a 900,000-share offering, according to Mike Carson, vice presi-

dent of operations.

The offering is contingent upon clearance by the SEC of the company's registration statement. The underwriter is Laidlaw, Adams and Peck, a New York investment banking firm.

According to the prospectus, the company was formed in October, 1978, and as of March 31, 1980, had an accumulated deficit of \$2.34 million and

a negative capital position of \$329,092.

During the year ended March 31, 1980, the company had a net loss of \$1.35 million and lost an additional \$321,875 during the three months ended June 30, 1980, the prospectus said.

As of June 30, 1980, the company had an accumulated deficit of \$2.67 million and a negative working capital position of \$605,382, it said. "The company is

continuing to operate at a loss, and, without receipt of the proceeds from this offering, the company will be able to meet its financial obligations as they mature for only a limited period of time."

Carson said that without the stock offering, the company would be unable to continue. He said that marketing expenses and research and development, \$573,773 and \$899,604 respectively,

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\$100 to about \$5,000, with some ex-
ceptions on the high end.

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It has to be relatively simple to play, and
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player masters a game, it is generally
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computer in each game can we do this."

The industry is very concerned with its
image on a couple of fronts. "We try to
avoid showing killing," Fogelman said.
"Our carnival game is essentially a
shooting gallery. But when you shoot a
bear, you don't kill him, he stands up
and growls at you. I have animals of my
own. I certainly wouldn't want to see
rabbits getting shot and dying in my
own shooting gallery."

Some years ago, a Santa Clara-based
company called Exidy offered a game
called "Death Race." In that game, the
player was in an automobile and the
object was to drive around and hit as
many pedestrians as possible in the time
allotted. Whenever the driver struck and
killed a person, a tiny cross would
appear on the screen, commemorating
the pedestrian's passing. Some games
have been known to offer simulated
screaming from victims.

"Death Race" was a very popular
game, but it generated some negative
publicity that the amusement industry
wants to avoid.

Another image problem is that game
machines have long been associated
with organized crime, especially in the
distribution end.

Fogelman defended his industry.
"There may have been truth to that con-
ception at one time, but in my decade in
the business, I've seen none of that."

To help bridge the image gap, man-
ufacturers and distributors often donate
games to hospitals and charity organiza-
tions. Some games are re-mounted to

allow for play by handicapped people.
Game rooms and arcades are
encouraged to sponsor special benefit
nights for charities, offering special
rates. Fogelman also claimed that some
games have been used in hospitals
to aids in improving hand-eye
coordination.

Naturally, with a viable game con-
cept worth millions of dollars, security
within the industry is tight.

"A few times a year, we have conven-
tions where we show off our machines
to interested buyers, and competitors
get a look at them as well. Sometimes
we'll open up the machine to show a
buyer, and a competitor will take
pictures of the insides. Circuit boards
have been known to be stolen."

"We won't show a game until it's just
about ready to go on the market,"
Fogelman explained. "Up to that point,
we're concerned about leaks here. It's
like pirating records. The most common
problem is when someone gets a hold of
one of our games right after it's intro-
duced; buying an early model and
having it copied. Our distributor
network is aware of this, and try to be
careful who they deal with."

Even with precautions, piracy
abounds. Most companies are involved
with legal action at one stage or
another. Fogelman admitted that
Gremlin is considering litigation in a
few instances, although no steps toward
courtroom confrontation have yet been
taken.

One of the ways in which copying is
discouraged is through copyright. At
Gremlin, each machine is presented for
patent with an accompanying videotape
documenting the machine's appearance,
method of game play, and technical
aspects. To this end, Gremlin has its
own studios, writers, photographers,
and filmmakers.

The in-house studio does not limit
itself to copyright documentaries,
however. Videotapes are used for
marketing purposes as well, and
Gremlin was recently one of five
companies honored by AT&T at a
videotape festival in New York, for its
use of the medium.

A successful game will market in the
thousands. Gremlin's biggest success so
far is its carnival game, which has
15,000 in circulation, and is still selling.

Fogelman himself is an avid game
player. "My own favorite is one of our
old games, called "Digger." It's a
survival game, you map out strategies,
digging holes to trap animals.

"It can be very relaxing," Fogelman
said. "It can take your mind off
business. Sometimes I'll go out at the
end of the day and just start playing."

"Sometimes," he admitted, "you'll
find me out there even during the
day."

accounted for \$1.47 million of the
accumulated deficit.

The planned offering would be a unit
sale, each unit comprising one share of
common stock plus a warrant at a total
tentative cost of \$5. The warrant could
be exercised within five years for the
purchase of a second share of stock at
the issuing price. The prospectus de-
scribed an investment as speculative.

Richard J. Reilly, chairman of the
board, and Jim Ryan, M.D., a Chicago
physician, acquired control of the firm
in 1977 from David B. Phillips, inventor
of the device, who still serves as con-
sultant, according to James P. Kelley,

Reilly owns 29.5 percent
of outstanding shares, Ryan 15.1

percent and Kelly 4.8 percent. There are
a total of 1,128,705 shares outstanding.

A suit in federal court is pending
against the firm filed by Robert Bodkin,
a former president of the firm. The suit
is based on alleged back salary owed,
and he claims he was not given, as
promised, a five percent interest in the
firm when he was employed.

The GST system has not been in use
long enough for definitive evaluation,
according to the prospectus. Corson
said more than 60 physicians are using
the device, some of them for more than
three years.

The company employs 15 persons
and leases 4,000 square feet of space in
the Torrey Pines Research and Business
Park.

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